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ACTION EB-07

INFO OCT-01 EA-07 IO-10 ISO-00 FEA-01 AGR-05 CEA-01

CIAE-00 COME-00 DODE-00 FRB-03 H-02 INR-07 INT-05

L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15

STR-04 TAR-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01

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FM AMEMBASSY KUALA LUMPUR

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INFO AMEMBASSY BANGKOK

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E.O. 11652: N/A

TAGS: ETRD, MY

SUBJ: MULTILATERAL TRADE NEGOTIATIONS (MTN): MALAYSIA
PROFILE

REF: STATE 181868

I. PART I: ECONOMIC AND POLITICAL BASIS FOR MALAYSIA

MTN APPROACH

A. ECONOMIC

1. MALAYSIA COVERS AN AREA OF 130,000 SQUARE MILES AND
HAS A POPULATION OF 12 MILLION WITH A POPULATION GROWTH
RATE OF 2.7 PERCENT. ECONOMY IS HEAVILY DEPENDENT ON
THE EXPORT OF PRIMARY COMMODITIES. MALAYSIA IS THE
LARGEST PRODUCER AND EXPORTER IN THE WORLD OF NATURAL

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RUBBER, TIN, PALM OIL, AND PEPPER. MALAYSIA IS ALSO A

MAJOR EXPORTER OF TIMBER AND PINEAPPLES. PETROLEUM IS BECOMING INCREASINGLY IMPORTANT ALTHOUGH MALAYSIA IS NOT EXPECTED TO BECOME A LARGE PRODUCER. EXPORTS FOR 1974 TOTALLED US DOLS 4,525 MILLION.

2. RUBBER REMAINS THE SINGLE MOST IMPORTANT INDUSTRY, ALTHOUGH IT DOES NOT DOMINATE THE ECONOMY AS IT ONCE DID. IN 1974 RUBBER PROVIDED 30 PERCENT OF TOTAL EXPORTS, 15 OF GNP. RUBBER IS IMPORTANT POLITICALLY BECAUSE SOME 550,000 SMALLHOLDERS (USUALLY WITH HOLDINGS OF 3-10 ACRES), WHO WITH FAMILIES TOTAL 2 TO 3 MILLION PERSONS, DEPEND ON RUBBER FOR THEIR LIVELIHOOD. THESE SMALLHOLDERS ARE PREDOMINANTLY BUMIPUTRAS (INDIGENOUS MALAYS), WHO ARE THE POLITICAL BASE FOR THE RULING PARTY.

3. FOR POLITICAL, ECONOMIC, AND SOCIAL REASONS THE GOM IS SENSITIVE TO THE ERRATIC BEHAVIOR OF NATURAL RUBBER PRICES. GOM IS PROMOTING THROUGH THE ASSOCIATION OF NATURAL RUBBER PRODUCING COUNTRIES (ANRPC) A RUBBER PRICE STABILIZATION SCHEME MODELED ON THE INTERNATIONAL TIN AGREEMENT WITH PROVISIONS FOR A BUFFER STOCK AND PRODUCTION CONTROLS TO KEEP PRICES WITHIN A GIVEN RANGE.

4. UNDERLYING THE SUBSTANTIAL GROWTH OF MALAYSIA'S EXPORTS BETWEEN 1970 - 74 IS A MARKED STRUCTURAL SHIFT AWAY FROM THE DOMINATION OF RUBBER AND TIN. PALM OIL HAS BEEN THE STAR PERFORMER AS ITS EXPORTS GREW 355 PERCENT. MANUFACTURED EXPORTS, MACHINERY, WOOD PRODUCT, AND TEXTILE EXPORTS HAVE SHOWN A STRONG PERFORMANCE AND NOW ACCOUNT FOR OVER 16 PERCENT OF TOTAL EXPORTS, WITH FURTHER SUBSTANTIAL INCREASE EXPECTED.

5. MALAYSIA HAS TRADITIONALLY AVERAGED OVER US DOLS 300 MILLION PER YEAR BALANCE OF PAYMENTS SURPLUS DURING 1971 - 1974 PERIOD. THE BASIC BALANCE AFTER DEDUCTING NET DEFICITS ON SERVICE AND TRANSFER ACCOUNTS AND INCLUDING LONG-TERM NET CAPITAL INFLOWS HAS AVERAGED US DOLS 200 MILLION ANNUALLY SINCE 1971.

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6. MALAYSIA'S ECONOMIC HEALTH IS DEPENDENT UPON DEMAND FOR ITS PRIMARY COMMODITIES FROM THE INDUSTRIALIZED COUNTRIES, U.S., EEC, AND JAPAN. GOM'S POLICY IS TO INCREASE VALUE-ADDED IN COUNTRY AND TO SEEK ADDITIONAL MARKETS BY ENCOURAGING TRADE WITH THE USSR, PRC, AND EASTERN EUROPEAN COUNTRIES.

7. ON THE IMPORT SIDE, THE SHIFT IN THE PATTERN OF

IMPORTS TOWARD LARGER SHARES FOR CAPITAL GOODS (ESPECIALLY MACHINERY FOR MANUFACTURING, METAL PRODUCTS, AND GENERATORS) AND INTERMEDIATE GOODS (ESPECIALLY CRUDE PETROLEUM, CHEMICAL PRODUCTS, PAPER PRODUCTS, PLASTIC MATERIALS, MOTOR ASSEMBLY PARTS AND TEXTILE YARN) REFLECTS A PROCESS OF IMPORT SUBSTITUTION PARTICULARLY IN CONSUMER GOODS INDUSTRIES. A RECENT STUDY OF THE MALAYSIAN TARIFF STRUCTURE SUGGESTS, HOWEVER, THAT EXTRAORDINARILY HIGH EFFECTIVE RATES OF TARIFF PROTECTION FOR CERTAIN CONSUMER GOODS MANUFACTURING INDUSTRIES, E.G., AUTOMOBILE ASSEMBLY, MAY HAVE LED TO AN INEFFICIENT ALLOCATION OF NEW CAPITAL INVESTMENT. IMPORTS OF CONSUMPTION GOODS HAVE INCREASED MARKEDLY DURING 1973 - 74, INDICATIVE OF INCREASED AFFLUENCE DURING THIS PERIOD.

8. JAPAN, U.K., AND U.S. ARE THE MAIN SOURCES OF SUPPLY OF MALAYSIA'S IMPORTS (JAPAN 25 PERCENT, U.K. 9 PERCENT, U.S. 9 PERCENT).

B. POLITICAL

1. THE POLITICAL LIFE OF MALAYSIA IS DOMINATED BY THE RULING MULTIRACIAL NATIONAL FRONT (NF) COALITION, WITHIN WHICH PRIME MINISTER TUN ABDUL RAZAK'S MALAY-BASED UMNO PARTY PLAYS THE PRE-EMINENT ROLE. (THE NF RECEIVED A FIVE-YEAR MANDATE IN THE 1974 ELECTIONS.) MALAYSIA'S LEADERSHIP FAVORS A FREE ENTERPRISE SYSTEM WITH INCENTIVES FOR FOREIGN INVESTMENT, AND HAS BEEN KNOWN FOR ITS STABILITY, PRAGMATISM AND GENERALLY MODERATE ORIENTATION. MALAYSIA'S POLITICS REFLECT THE RACIAL COMPLEXITY OF THE COUNTRY, AND TRADITIONALLY IT HAS BEEN SAID THAT THE CHINESE CONTROL THE ECONOMY AND THE MALAYS CONTROL THE POLITICS. HOWEVER, SINCE THE 1969 RACIAL RIOTS GOVERNMENT POLICY HAS FOCUSED ON INCREASING ETHNIC MALAY LIMITED OFFICIAL USE

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PARTICIPATION IN THE ECONOMY AND RECENT YEARS HAVE SEEN THE EMERGENCE OF A NEW GROUP OF POLITICAL FIGURES NOTED FOR THEIR MALAY ECONOMIC NATIONALISM AND LESS PREDICTABLE BEHAVIOR.

2. FOR A NUMBER OF YEARS MALAYSIA HAS CONTENDED WITH A LARGELY ETHNIC CHINESE COMMUNIST INSURGENCY CENTERED IN THE BORDER AREAS NEAR THAILAND. ALTHOUGH THERE HAS BEEN AN INCREASE IN RECENT MONTHS IN URBAN TERRORIST "SPEC-TACULARS" BY THE COMMUNISTS, THE INSURGENCY IS NOT PERCEIVED BY THE GOM AS A DIRECT THREAT TO ITS SURVIVAL. MORE IMPORTANT IN THE LONG RUN TO CONTINUED ECONOMIC PROGRESS AND GOVERNMENT STABILITY IS HOW WELL THE GOVERNMENT CAN ACCOMMODATE THE GROWING DEMANDS OF THE MALAY ELEMENTS OF THE POPULATION WITH THE

ASPIRATIONS OF THE CHINESE WHO NOW FACE IN-
CREASING ECONOMIC DISCRIMINATION.

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3. GENERAL FOREIGN POLICY ORIENTATION. MALAYSIA HAS
DIPLOMATIC TIES WITH A WIDE RANGE OF COUNTRIES, COMMUNIST
AS WELL AS NONCOMMUNIST. A KEY PILLAR OF MALAYSIAN
FOREIGN POLICY IS THE MAINTENANCE OF CLOSE TIES WITH
FELLOW ISLAMIC NATIONS, BOTH BILATERALLY AS WELL AS
THROUGH ACTIVE PARTICIPATION IN ISLAMIC MINISTERIAL
CONFERENCES. THIS RELIGIOUSLY DERIVED ORIENTATION IS BUT-
TRESSED BY THE GOM'S HOPE TO GUARANTEE CONTINUED ACCESS
TO ARAB OIL AS WELL AS TO ENCOURAGE A FLOW OF PETRO-
DOLLARS IN MALAYSIA'S DIRECTION.

4. MALAYSIA HAS SOUGHT IN RECENT YEARS TO INCREASINGLY
IDENTIFY ITSELF WITH THE NONALIGNED BLOCK OF LESS
DEVELOPED NATIONS, ESPECIALLY WITH REGARD TO ECONOMIC

ISSUES SUCH AS EXPORT COMMODITY PRICE STABILIZATION
SCHEMES AND THE CALL FOR A "NEW WORLD ECONOMIC ORDER."
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IN LINE WITH ITS MEMBERSHIP IN THE NONALIGNED GROUP
MALAYSIA HAS SOUGHT TO MAINTAIN AN EQUIDISTANCE BETWEEN
THE MAJOR POWERS AND TO THIS END ESTABLISHED DIPLOMATIC
RELATIONS WITH THE PRC IN JUNE 1974.

5. REGIONAL FOREIGN POLICY CONCERNS. MALAYSIA GREATLY
VALUES ITS MEMBERSHIP IN THE FIVE NATION ASSOCIATION OF
SOUTHEAST ASIAN NATIONS (ASEAN), AND IN PARTICULAR ITS
CLOSE AND COOPERATIVE RELATIONSHIP WITH INDONESIA AS A
FELLOW PREDOMINANTLY MUSLIM MALAY NATION WITH WHOM IT
SHARES EXTENSIVE WATER AND LAND BOUNDARIES. IT ALSO
HAS BEEN A KEY SPONSOR OF THE 1970 ASEAN PROPOSAL
(KNOWN AS THE "KUALA LUMPUR DECLARATION") CALLING FOR
THE DEVELOPMENT IN TIME OF A "ZONE OF PEACE, FREEDOM AND
NEUTRALITY" IN SOUTHEAST ASIA, AND LIKEWISE HAS SUPPORTED
INTERNATIONAL PROPOSALS FOR CREATION OF AN "INDIAN
OCEAN ZONE OF PEACE." MALAYSIA STILL VALUES ITS COMMON-
WEALTH TIES, BUT THESE SEEM TO BECOMING LESS IMPORTANT
AS MALAYSIA SEEKS TO CULTIVATE ITS CREDENTIALS WITH THE
NONALIGNED CAMP.

C. OVERALL MTN APPROACH

1. MALAYSIA'S TRADE POLICY IS ONE OF GROWTH AND EXPANSION
OF TRADE, ESPECIALLY FOR PRIMARY COMMODITIES. MALAYSIA
FAVORS THE GLOBAL INTEGRATED PROGRAM FOR COMMODITIES
PROPOSED BY THE SECRETARY GENERAL OF UNCTAD. MALAYSIA
BELIEVES THAT THE MAIN THRUST OF ANY COMMODITY POLICY SHOULD
BE THROUGH PRICE STABILIZATION WITH MEASURES LIKE COM-
PENSATORY FINANCING TO COMPLEMENT PRICE STABILIZATION.
INTERNATIONAL FINANCIAL INSTITUTIONS SHOULD ASSIST IN
DIRECT BUFFER STOCK FINANCING. ADDITIONALLY, TRADE
TALKS SHOULD DEAL WITH THE QUESTION OF ACCESS TO MARKETS
OF DEVELOPED COUNTRIES FOR THE COMMODITIES, MANUFACTURERS,
AND SEMI-MANUFACTURES OF DEVELOPING COUNTRIES.

2. MALAYSIA WILL APPROACH THE MTN PRAGMATICALLY AND WILL
ACT IN ITS OWN SELF-INTEREST. MALAYSIA CAN BE EXPECTED
TO SUPPORT ASEAN MEMBERS ON JOINT ISSUES AND POSITIONS.
IT WILL ALSO ENTER INTO BILATERAL TALKS ON TARIFFS AND
NTB'S AS IT HAS DONE AND CONTINUES TO DO WITH THE EEC.

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II. PART II MALAYSIA'S POLICIES AND MECHANISMS TO ACHIEVE
TRADE OBJECTIVES.

A. GENERAL TARIFF POLICY: MALAYSIA TARIFFS ARE GENERALLY
HIGH AND MANY. THIS IS THE RESULT OF A POLICY ADOPTED
IN THE 1960'S TO PROMOTE IMPORT SUBSTITUTION INDUSTRIES
PARTLY BY HIGH PROTECTIVE TARIFFS. TODAY, PIONEER
INDUSTRIES, PRODUCING FOR THE DOMESTIC
MARKET AND/OR FOR EXPORT, MAY BE PROTECTED BY
TARIFFS OR QUOTA LICENSING OR BOTH. IMPORT DUTIES, EXCISE
TAX, AND SURTAX ARE ALSO IMPORTANT SOURCES OF GOVERNMENT
REVENUES ACCOUNTING FOR 35 PERCENT OF ESTIMATED CURRENT
REVENUES IN 1975. IMPORT DUTIES ARE LOW OR NONEXISTENT
ON CERTAIN DESIGNATED "ESSENTIAL" ITEMS, MAINLY FOOD
PRODUCTS. EXPORT DUTIES ON PRIMARY COMMODITIES ARE ALSO
AN IMPORTANT SOURCE OF GOVERNMENT REVENUE.

B. NONTARIFF BARRIERS. AS REPORTED IN KUALA LUMPUR A-28,
MARCH 6, 1975, THE EMBASSY'S ASSESSMENT IS THAT THERE ARE
NO MALAYSIAN NTB'S WHICH SIGNIFICANTLY IMPAIR OR RESTRICT
TRADE BETWEEN THE U.S. AND MALAYSIA.

C. REGIONAL AND BILATERAL ISSUES:

1. MALAYSIA IS A STRONG SUPPORTER OF ASEAN. MALAYSIA
IS THE ORIGINATOR AND PRIME MOVER IN THE ANRPC TO DEVELOP
A PRICE STABILIZATION SCHEME FOR RUBBER SIMILAR TO THE
INTERNATIONAL TIN AGREEMENT.

2. ON A BILATERAL BASIS, MALAYSIA WOULD LIKE THE USG TO
REMOVE TARIFF AND NONTARIFF BARRIERS SO THAT MALAYSIA
CAN GAIN GREATER ACCESS TO U.S. MARKETS ESPECIALLY FOR
RUBBER AND WOOD BASED PRODUCTS; HYDROGENATED OR HARDENED
OIL, FATS, AND GREASES; CANNED PINEAPPLE; AND PPER.

3. MALAYSIA CONTINUES TO NEGOTIATE WITH EEC ON A BI-
LATERAL BASIS AND JOINTLY WITH ASEAN MEMBERS. EEC RE-
CENTLY REDUCED TARIFFS ON SEVERAL OF MALAYSIA'S MAJOR
EXPORT COMMODITIES INCLUDING PINEAPPLES, PLYWOOD, PALM
OIL, PALM KERNEL OIL, AND COCONUT OIL.

ANNEX A: KEY AGENCIES
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THE KEY MALAYSIAN AGENCY IN TRADE POLICY FORMATION IS THE
MINISTRY OF TRADE AND INDUSTRY HEADED BY MINISTER DATUK
HAMZAH BIN DATUK ABU SAMAH. IT WORKS CLOSELY WITH THE
MINISTRY OF PRIMARY INDUSTRIES (MINISTER DATUK MUSA HITAM)
ON POLICY QUESTIONS ON PRIMARY COMMODITIES. MINISTRY OF
FINANCE, ECONOMIC PLANNING UNIT, AND THE PRIME MINISTER'S

ECONOMIC ADVISORS MAY ALSO BE INVOLVED IN MAJOR TRADE
POLICY QUESTIONS. MINISTRY OF FOREIGN AFFAIRS COORDINATES
TRADE POLICIES WITH ASEAN COUNTRIES.

ANNEX B: KEY PERSONNEL

1. VICTOR C. DE BRUYNE, DEPUTY SECRETARY GENERAL, MIN-
ISTRY OF TRADE AND INDUSTRY

2. YEE CHEE FONG, DIRECTOR, INTERNATIONAL TRADE DIVISION,
MINISTRY OF TRADE AND INDUSTRY

3. PETER STEPHEN LAI, PERMANENT REPRESENTATIVE TO UNITED
NATIONS, GENEVA; AMBASSADOR TO BELGIUM, AND REPRESENTATIVE TO EEC.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INTERAGENCY COOPERATION, INTELLIGENCE COLLECTION, TRADE AGREEMENTS, NEGOTIATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 20 SEP 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975KUALA05615
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750327-0702
From: KUALA LUMPUR
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750932/aaaabbvg.tel
Line Count: 347
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 STATE 181868
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 20 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20 JUN 2003 by CunninFX>; APPROVED <06 NOV 2003 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: MULTILATERAL TRADE NEGOTIATIONS (MTN): MALAYSIA PROFILE
TAGS: ETRD, MY
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006